RAISING MONEY SAVVY KIDS

Important financial values for children

One the greatest gifts we can give our children is to teach them financial literacy. Don't worry if you're not a financial whizz yourself - teaching young ones the fundamentals isn't hard.

Parents are hands-down the greatest influence on their children's behaviour - research shows this also extends to money management. Even the wisest financial lessons won't shape your children's habits if they don't observe YOU making fiscally responsible decisions.

If you don't already have a family budget, create one, stick to it, pay your bills on time and demonstrate the need to save both for life's pleasures and its unexpected expenses.

Here are five important financial values children need to learn:

1. Responsible spending

The first concept children need to grasp is **people buy things with money**. Increased use of credit cards, internet banking and online shopping means children often don't see money being exchanged for purchases. Even from a young age you should use shopping trips as learning experiences.

We all know kids want everything (and want it now!) As children mature they should learn the difference between their needs and wants. Once they have their own money, learning to differentiate between needs and wants will be a process of trial and error - and there will be plenty of mistakes along the way. The hardest part for parents is resisting the temptation to bail them out when the piggy bank is empty!

2. Work/money connection

From a young age, **children should understand money comes from work**, not mum and dad's pocket or an ATM machine. Begin by explaining why you work, ie to make money for the family to buy the things you use every day and to save for the future.

The best way to help kids make the work/money connection is to pay them pocket money in exchange for chores. Children under six need to be rewarded immediately for the work they have done to make the connection. Older children can receive regular payments so they learn to budget.

One great idea is to provide three different containers so they can split their money: give, spend and save. This reinforces the three ways to divide (and prioritise) their income.

3. Saving is important

Children under seven can't really comprehend that one day something may happen and they may need money in reserve. This doesn't mean they can't get into the habit of saving.

Identify things they want and **help them set up a savings plan** to get them. Kids love instant gratification so they need lots of encouragement to learn about the pleasure of delayed gratification!

Once they are old enough to understand the concept, open a savings account with your children. This shows them **what a deposit is, how interest is earned** and also **introduces them to compound interest** so they see how they can earn interest on their interest.

4. Budgeting

As they mature, involving your kids in discussions about the family budget **helps give them the big picture about costs and spending**.

Budgeting teaches children:

- the important financial tools they will need later
- how to spend less than they earn
- how choices they make NOW impact their future
- you often have to wait to be able to buy something you really want

Help older children create their own budgets using spreadsheets, online programs or mobile apps and watch them take ownership of their finances.

5. The concept of debt

So your spendthrift has just blown their allowance or their first pay? What do you do? Rather than providing a handout this is an **ideal opportunity to introduce the concept of debt**. Explain you are prepared to lend them money but also explain there is a cost - when it is paid back, they will have to pay more! This is gentle preparation for the day they need to front up to a bank and ask for a loan.

When is the right age to introduce new concepts?

Ages 3 to 5:
Make saving a visual experience.
Key lesson:
You may have to wait to buy something you want.

Ages 6 to 10:
Learn through trial and error.
Key lesson:
You need to make choices about how to spend money.

Ages 11 to 13:
Show a variety of purposes for money.
Key lesson:
The sooner you save, the faster your savings grow from compound interest.

Ages 14 to 18:
Keep track of mobile phone data and usage.
Key lesson:
Monitor spending and adjust behaviour to live within your budget.